

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)

Monterey, California

**Basic Financial Statements and
Independent Auditors' Reports**

For the Year Ended June 30, 2016



City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the City of Monterey Joint Powers Financing Authority
Monterey, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the City of Monterey Joint Powers Financing Authority (the "Authority"), a component unit of the City of Monterey, California (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Authority as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
of the City of Monterey Joint Powers Financing Authority
Monterey, California
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial Statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the attesting, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
December 16, 2016



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

To the Board of Directors
of the City of Monterey Joint Powers Financing Authority
Monterey, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of the City of Monterey Joint Powers Financing Authority (the "Authority"), a component unit of the City of Monterey, California (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 16, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
of the City of Monterey Joint Powers Financing Authority
Monterey, California
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

Santa Ana, California
December 16, 2016

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

Please read this overview in conjunction your reading of the accompanying Basic Financial statements.

THE PURPOSE OF THE AUTHORITY

The City of Monterey Joint Powers Financing Authority (the "Authority") was formed in July 1994 by a joint exercise of powers between the City of Monterey (the "City") and the Redevelopment Agency of the City of Monterey (RDA). On February 1, 2012, the RDA was dissolved by the Dissolution Act (Assembly Bill X1 26) and the Successor Agency to the Redevelopment Agency of the City of Monterey (the "Successor Agency") assumed control of the former RDA operations and assets. The Authority provides financing of public capital improvements for the City and Successor Agency through the issuance of Lease Revenue Bonds. This form of debt allows investors to participate in a stream of future lease payments.

Improvements financed with Authority debt are leased to the City in return for rental payments which, together with restricted assets of the Authority (See Note 2), will be sufficient to meet the debt service obligations of the Authority. At the termination of the lease, title to the improvements will pass to the City.

The Authority is an integral part of the City. It provides services to the City and its governing body is the City Council. Therefore, the financial data of the Authority has been included as a blended component unit within the City's comprehensive annual financial report for the year ended June 30, 2016.

FISCAL YEAR 2015-16 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Authority had a net position of \$(2,168) at June 30, 2016.
- The Authority's net position decreased \$5,304 in fiscal year 2015/16.

The Basic Financial Statements

The Basic Financial Statements comprise the Authority-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the Authority's financial activities and financial position.

The **Government-wide Financial Statements** provide a longer-term view of the Authority's activities as a whole, and comprise the Statement of Net Positions and the Statement of Activities. They are prepared on the accrual basis, which means they measure the flow of all economic resources of the Authority as a whole.

The *Statement of Net Position* provides information about the financial position of the Authority as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The *Statement of Activities* provides information about all the Authority's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the Authority's programs. It explains in detail the change in net position for the year.

For each of these statements, all of the Authority's activities are grouped into two categories, Government Activities and Business-Type Activities.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2016

The **Fund Financial Statements** report the Authority's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the Authority's two Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances. The Fund Financial Statements provide detailed information about each of the Authority's most significant funds, called Major Funds. The Authority reports both of its Funds as Major Funds; their purpose is explained in Note 1.B. to the financial statements.

Financial statements for Governmental Major Funds are prepared on the modified accrual basis, which means they measure only current financial resources and uses.

FINANCIAL ACTIVITIES OF THE AUTHORITY AS A WHOLE

This analysis focuses on the net position and changes in net position of the Authority in the Authority-wide *Statement of Net Position* and *Statement of Activities* that follow.

The Authority's net position decreased \$5,304 in 2016 from \$3,136 in 2015. This decrease is primarily due to a deficit in the Debt Service Fund, which will be eliminated in fiscal year 2016/17.

Fiscal Year 2015-16 Authority Activities

Government-wide Financial Statements

The Authority's fiscal 2016 revenue came solely from investment earnings, which amounted to \$98,037. The Authority's expenses in the amount of \$646,857 were for interest expense and other expenses.

Fund Financial Statements

At June 30, 2016, the Authority's governmental fund reported a fund balance of (\$7,299), which is a decrease of \$5,304 compared with last year. This deficit fund balance will be eliminated by June 30, 2017.

DEBT ADMINISTRATION

Each of the Authority's debt issues are discussed in detail in Note 4 to the financial statements. At June 30, 2016, the Authority's debt was comprised of Lease Revenue Bonds issued with interest rates of 5.5% to 5.75%, and a Lease Revenue Agreement with an interest rate of 3.87%, all secured by Lease revenues.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Authority's sole revenue source is investment income received from the City of Monterey. The outlook for continued receipt of revenue payments and then subsequent ability to make timely debt service payments is strong.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's financial condition and results of operations. Questions should be directed to the Finance Department, 735 Pacific Street, Suite A, Monterey, CA 93940.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2016

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities summarize the entire Authority's financial activities and financial position. They are prepared on the same basis as is used by most businesses,

which means they include all the Authority's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Authority's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Authority funds have been eliminated.

The Statement of Net Position reports the difference between the Authority's total assets and the Authority's total liabilities, including the Authority's long-term debt. The Statement of Net Position presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the Authority's net position, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the financial position of all the Authority's Governmental Activities in a single column, and the financial position of all the Authority's Business-Type Activities in a single column; these columns are followed by a total column that presents the financial position of the entire Authority.

The Authority's Governmental Activities include the activities of its Debt Service Fund. The Authority's Business-Type Activities include its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the Authority's net position. It is also prepared on the full accrual basis, which means it includes all the Authority's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the Authority's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The Authority's general revenues are then listed in the Governmental Activities or Business-Type Activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

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FINANCIAL STATEMENTS

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City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 10,438	\$ 5,131	\$ 15,569
Interest receivable	41,273	15,755	57,028
Investment in leases	6,395,000	770,000	7,165,000
Total assets	6,446,711	790,886	7,237,597
LIABILITIES			
Interest payable	41,248	15,755	57,003
Accounts payable	171	-	171
Arbitrage rebate payable	17,591	-	17,591
Long Term Debt			
Due within one year	295,000	370,000	665,000
Due in more than one year	6,100,000	400,000	6,500,000
Total liabilities	6,454,010	785,755	7,239,765
NET POSITION			
Unrestricted (deficit)	(7,299)	5,131	(2,168)
Total net position	\$ (7,299)	\$ 5,131	\$ (2,168)

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Governmental Activities	Business-type Activities	
Governmental Activities:					
General government	\$ 590,159	\$ 543,516	\$ (46,643)	\$ -	\$ (46,643)
Business-Type Activities:					
Financing Authority	56,698	-	-	(56,698)	(56,698)
Total	<u>\$ 646,857</u>	<u>\$ 543,516</u>	<u>(46,643)</u>	<u>(56,698)</u>	<u>(103,341)</u>
General revenues:					
Investment earnings			41,339	56,698	98,037
Total general revenues			41,339	56,698	98,037
Changes in net position			(5,304)	-	(5,304)
Net Position:					
Beginning of year			(1,995)	5,131	3,136
End of year			<u>\$ (7,299)</u>	<u>\$ 5,131</u>	<u>\$ (2,168)</u>

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Major Governmental Fund

DEBT SERVICE FUND

This **Debt Service Fund** is used to account for the accumulation of financial resources for the payment of long-term debt principal, interest, and related costs. As with all governmental funds, the Debt Service Fund is accounted for on a spending or financial flow measurement focus, which means that current assets and current liabilities are generally included on its balance sheet. The reported fund balances represent net current assets, which is considered only to be a measure of *available spendable resources*. Governmental fund operating statements present a summary of sources and uses of *available spendable resources* during a period by presenting increases and decreases in net current assets.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Governmental Fund
Balance Sheet
June 30, 2016

	Debt Service
ASSETS	
Cash and investments	\$ 10,438
Interest receivable	25
Investment in leases	6,395,000
Total assets	\$ 6,405,463
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable	171
Arbitrage rebate payable	17,591
Total liabilities	17,762
Deferred inflows of resources:	
Unavailable revenue	6,395,000
Total deferred of inflows of resources	6,395,000
Fund Balance:	
Unassigned (deficit)	(7,299)
Total fund balance	(7,299)
Total liabilities, deferred inflows of resources and fund balances	\$ 6,405,463

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Reconciliation of the Governmental Fund Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2016

Total fund balance for the governmental fund \$ (7,299)

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Fund because :

Revenues earned but were not available to pay for current expenditures for governmental fund are reported as unavailable revenue in the governmental fund balance sheet

Unavailable revenue	6,395,000
Interest receivable	(41,248)

Long-term debt and related payable were not due and payable in the current period, therefore, they were not reported in the governmental fund balance sheet current period and therefore are not reported in the governmental funds:

Long-term debt	(6,395,000)
Interest payable	<u>41,248</u>

Total net position of governmental activities \$ (7,299)

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2016

	Debt Service
REVENUES:	
Lease revenue	\$ 543,516
Interest on investment in lease	85
Unrealized Gain on Investment	6
Total Revenues	543,607
EXPENDITURES:	
Current:	
General government	5,395
Debt services:	
Principal	285,000
Interest expense	258,516
Total Expenditures	548,911
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,304)
NET CHANGE IN FUND BALANCE	(5,304)
FUND BALANCES:	
Beginning of year	(1,995)
End of year	\$ (7,299)

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
**Reconciliation of the Governmental Fund Statement of Revenues, Expenditures,
and Change in Fund Balance to the Government-Wide Statement of Activities**
For the Year End June 30, 2016

Net change in fund balance - governmental fund \$ (5,304)

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Repayment of debt principal	285,000
Interest expense	(41,248)

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Unavailable revenue	(285,000)
Interest revenue	41,248

Change in net position of governmental activities	\$ (5,304)
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City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Major Proprietary Fund

FINANCE AUTHORITY FUND

The Financing Authority Fund is an enterprise fund and is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the Authority is the costs and expenses; or (b) where the Authority has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for debt purposes.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Net Position
June 30, 2016

	Financing Authority
ASSETS	
Cash and investments	\$ 5,131
Interest receivable	15,755
Investment in leases	770,000
Total Assets	790,886
LIABILITIES	
Interest payable	15,755
Long Term Debt :	
Due within one year	370,000
Due in more than one year	400,000
Total Liabilities	785,755
NET POSITION	
Unrestricted	5,131
Total Net Position	\$ 5,131

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

	Financing Authority
NONOPERATING REVENUES (EXPENSES):	
Interest on investment in lease	\$ 56,698
Interest expense	(56,698)
Total nonoperating revenues (expenses)	-
Change in net position	-
NET POSITION:	
Beginning of year	5,131
End of year	\$ 5,131

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Cash Flows
For the Year Ended June 30, 2016

	Financing Authority
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest paid	\$ (63,655)
Principal payments on capital debt	(340,000)
capital and	(403,655)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	63,655
Investment in lease	340,000
Cash flows provided by investing activities	403,655
Net increase in cash and cash equivalents	-
CASH AND CASH EQUIVALENTS:	
Beginning of period	5,131
End of period	\$ 5,131

NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The City of Monterey Joint Powers Financing Authority (the “Authority”) was formed in July 1994 by a joint exercise of powers between the City of Monterey, California (the “City”) and the Redevelopment Agency of the City of Monterey (the “RDA”). On February 1, 2012, the RDA was dissolved by the Dissolution Act (Assembly Bill X1 26) and the Successor Agency to the Redevelopment Agency of the City of Monterey (the “Successor Agency”) assumed control of the former RDA operations and assets. The Authority provides financing of public capital improvements for the City and Successor Agency through the issuance of Lease Revenue Bonds and other debt consisting of private placement, lease revenue agreements. This form of debt allows investors to participate in a stream of future lease payments.

Improvements financed with Authority debt are leased to the City in return for rental payments which, together with restricted assets of the Authority (See Note 2), will be sufficient to meet the debt service obligations of the Authority. At the termination of the lease, title to the improvements will pass to the City.

The Authority is an integral part of the City. It provides services to the City and its governing body is the City Council. Therefore, the financial data of the Authority has been included as a blended component unit within the City’s comprehensive annual financial report for the year ended June 30, 2016.

B. Financial Statements Presentation, Basis of Accounting and Measurement Focus

The Authority’s basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The Government Accounting Standards Board (“GASB”) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America

These Statements require that the financial statements described below be presented.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about. These statements include the financial activities of the overall Authority. These statements distinguish between the *governmental* and *business-type activities* of the Authority.

The government-wide financial statements are reported using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Authority’s assets and liabilities, including long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Authority and for each function of the Authority’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Financial Statements Presentation, Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. Separate statements for each fund category—governmental and proprietary—are presented.

The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. The Authority considers all its funds to be major funds.

Governmental Fund Financial Statements

Governmental funds are reported using the “*current financial resources*” measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*.

The Authority considers all revenues reported in the governmental fund to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, compensated absences, which are recognized as expenditures to the extent they have matured, and principal and interest on general long-term debt. Financial resources usually are appropriated in other funds for transfer to the debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts are not current liabilities of the debt service funds as their settlement will not require expenditure of existing fund assets. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their corresponding totals for all governmental or enterprise funds and at least five percent of the aggregate amount for all governmental and enterprise funds for the same item. The Authority reported the following major governmental fund in the accompanying financial statements:

Debt Service Fund – This Fund is used to account for the accumulation of financial resources for the payment of long-term debt principal, interest, and related costs. As with all governmental funds, the Debt Service Fund is accounted for on a spending or financial flow measurement focus which means that current assets and current liabilities are generally included on its balance sheet. The reported fund balances represents net current assets, which is considered only to be a measure of *available spendable resources*. Governmental fund operating statements present a summary of sources and uses of *available spendable resources* during a period by presenting increases and decreases in net current assets.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Financial Statements Presentation, Basis of Accounting and Measurement Focus (Continued)

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Proprietary fund *operating* revenues and expenses, such as charges for services, and payments to employees and vendors, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Non-operating* revenues and expenses, such as subsidies, investment earnings, changes in fair value of investments and interest charges result from non-exchange transactions or ancillary activities.

The concept of major funds extends to Proprietary Funds. The Authority reported the following enterprise fund as a major fund in the accompanying financial statements:

Financing Authority Fund – This enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the Authority is the costs and expenses; or (b) where the Authority has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for debt purposes.

C. Cash and Investments

The Authority's cash are cash on hand and demand deposits pooled with the City.

The Authority's investments are pooled with the City and are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

Please refer to the City's Comprehensive Annual Financial Report for more information.

D. Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Proprietary fund types' cash and investments balances are considered cash equivalents for purposes of the statement of cash flows. Restricted cash is excluded because it is not liquid and may not be used to liquidate liabilities in the ordinary course of business.

City of Monterey
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosure about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

- Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.
- Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

F. Deferred Outflows of Resources and Deferred Inflows of Resources

The Statement of Net Position and the Balance Sheet report separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, will not be recognized as revenue until that time.

G. Net Position

Net Position is measured on the full accrual basis as compared to Fund Balance, which is measured on the modified accrual basis. Net Position is the excess of all the City’s assets and deferred outflows of resources over all its liabilities and deferred inflows of resources, regardless of source. Net Position is classified as follows:

Net Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the City’s capital assets, less the outstanding balance of any debt issued to finance these assets, net of unspent debt proceeds.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These are principally debt service requirements, endowment funds, debt proceeds restricted for the Conference Center, redevelopment funds restricted to low and moderate income purposes and grant funding restricted for public works projects.

Unrestricted describes the net position for the amount of the assets, deferred outflows of resources, net of liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of the net position.

City of Monterey
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Net Position (Continued)

The City's policy is to first apply restricted resources to such programs, followed by the unrestricted component of net position as needed. The Authority did not have net investment in capital assets and restricted net position at June 30, 2016.

H. Fund Balances

In the Governmental Fund Financial Statements, fund balances are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – nonspendable fund balances are items that are not expected to be converted to cash associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds will be restricted, committed, or assigned once they do become available) or items that are required to be maintained intact, such as principal of an endowment.

Restricted – restricted fund balances are subject to constraints for specific purposes imposed by external providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.

Committed – committed fund balances can be used only for specific purposes determined by formal resolution adopted by the Board of Directors (the Authority's highest level of decision-making authority) and use of these funds requires the same formal Board action. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

Assigned – assigned fund balances are intended by the Board to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned fund balances include unexpended encumbrances not classified at a more restricted level. The Board of Directors adopts the Authority's Financial Policies as part of the adoption of the annual budget. The Financial Policies include policies on the assignment of fund balance.

Unassigned – unassigned fund balance is the residual classification for the government's general fund and includes all amounts not contained in the other classifications. It is possible for other governmental funds to have negative unassigned fund balance when nonspendable, restricted, committed and assigned fund balances for specific purposes exceed the positive fund balance for that fund.

At year end restricted fund balances for specific purposes are determined (excluding nonspendable amounts). Remaining fund balance, considered spendable, is classified into committed, assigned or unassigned categories depending upon the intended use of the balances. Fund balance amounts for governmental funds are classified as restricted or committed depending upon the purpose and restrictions imposed on each specific fund. The Authority applies expenditures to the most restrictive available balances first, and then less restricted funds as required in the order of committed, assigned, and then unassigned.

City of Monterey
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Use of Estimates

The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

J. Change in Accounting Principles

GASB Statement No. 72, Fair Value Measurement and Application – This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement became effective for periods beginning after June 15, 2015 and did not have any measurement impact on the Authority’s investment portfolio, except for the additional disclosure regarding to measurement input as discussed in Note 2 of the Authority’s financial statements for the year ended June 30, 2016.

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 – This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No.68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. This Statement became effective for periods beginning after June 15, 2015 and did not have a significant impact on the Authority’s financial statements for the year ended June 30, 2016.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments – This Statement establishes standards relating to the hierarchy of generally accepted accounting principles. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement became effective for periods beginning after June 15, 2015, is applied retroactively, and did not have a significant impact on the Authority’s financial statements for the year ended June 30, 2016.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants – This Statement establishes standards relating to accounting and financial reporting for certain external investment pools and pool participants. This Statement became effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. This Statement did not have a significant impact on the Authority’s financial statements for the year ended June 30, 2016.

City of Monterey
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Cash and Investments

As of June 30, 2016, the Authority had the following cash and investments as follows:

	Government-Wide Financial Statement		Total
	Governmental Activities	Business-Type Activities	
Cash and investments	\$ 10,438	\$ 5,131	\$ 15,569
Total cash and investments	\$ 10,438	\$ 5,131	\$ 15,569

The Authority pools all cash and investment with the City. Cash and investments are deposited in the City's investment pool, which are reported at fair value. Interest income is allocated based on average cash balances. Investment policies and associated risk factors applicable to the Authority are those of the City and are included in the City's basic financial statements.

For cash flow purposes, all cash and investments of the Authority are considered to be cash and cash equivalents.

Authorized Investments

The Authority's investment policy (same as the City's investment policy) and the California Government Code allow the following investments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investments in One Issuer
U.S. government obligations	5 years	N/A	N/A
U.S. government sponsored enterprise securities	5 years	N/A	N/A
Bankers' Acceptances	180 days	40%	N/A
Commercial Paper*	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	N/A
Repurchase Agreements	90 days	N/A	N/A
Reverse repurchase agreement	90 days	20%	N/A
California Local Agency Investment Fund	N/A	N/A	N/A
Certificates of Deposit (or Time Deposits)	5 years	25%	N/A
Medium Term Corporate Notes**	5 years	30%	5%

* Rated A-1 by Standard & Poor's Corporation or P-1 by Moody's

** Rated A or better by Standard & Poor's Corporation or Moody's

N/A - Not Applicable

City of Monterey
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Investments in Leases

The assets financed by the Authority are leased to the City for their estimated useful lives and will become the City's property at the conclusion of the leases. The Authority therefore records the present value of the leases receivable and considers the assets to have been sold for these amounts when leased.

The following is a summary of the investments in leases as of June 30, 2016:

	<u>Police/Fire Stations Lease</u>	<u>Material Recovery Lease</u>
Total minimum lease payments to be received under Lease agreement	\$ 8,696,877	\$ 837,275
Less unearned interest income (based on the imputed Interest rate implicit in the lease)	<u>(2,301,877)</u>	<u>(67,275)</u>
Present value of investment in leases	<u>\$ 6,395,000</u>	<u>\$ 770,000</u>

Note 4 – Long Term Debt

The summary of changes in the Authority's long-term debt for the year ended June 30, 2016 is as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Lease Payable:					
2013 Refunding-2005 Joint Powers Financing Authority, 3.87% due 5/01/32	\$ 6,680,000	\$ -	\$ 285,000	\$ 6,395,000	\$ 295,000
Total Governmental Activities	<u>\$ 6,680,000</u>	<u>\$ -</u>	<u>\$ 285,000</u>	<u>\$ 6,395,000</u>	<u>\$ 295,000</u>
Business-type Activities:					
Lease Revenue Bonds Payable:					
1994 Materials Recovery Facility, 5.50-5.75% due 3/1/18	\$ 1,110,000	\$ -	\$ 340,000	\$ 770,000	\$ 370,000
Total Business-type Activities	<u>\$ 1,110,000</u>	<u>\$ -</u>	<u>\$ 340,000</u>	<u>\$ 770,000</u>	<u>\$ 370,000</u>

Lease Payable

On October 24, 2013, the Joint Powers Financing Authority entered into a \$7,170,000 Lease Agreement with Capital One Public Funding, LLC to refund 2002 Lease Revenue Bonds, which were originally issued to provide funds for the expansion of the Monterey Sports Center and the purchase of the Catellus East parcel. The 2002 Lease Revenue Bonds were refunded with proceeds from a privately placed bank financing and a new lease agreement with Capital One Public Funding, LLC at an interest rate of 3.87% through May 1, 2032.

City of Monterey
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 4 – Long Term Debt (Continued)

Lease Payable (Continued)

As of June 30, 2016, annual debt service requirements to maturity and carrying value of the lease payable were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2017	\$ 295,000	\$ 247,487	\$ 542,487
2018	310,000	236,070	546,070
2019	320,000	224,073	544,073
2020	330,000	211,689	541,689
2021	345,000	198,918	543,918
2022-2026	1,935,000	783,869	2,718,869
2027-2031	2,335,000	379,454	2,714,454
2032-2036	525,000	20,318	545,318
Total	<u>\$ 6,395,000</u>	<u>\$ 2,301,877</u>	<u>\$ 8,696,877</u>

Lease Revenue Bonds

On February 15, 1994, \$4,045,000 of Lease Revenue Bonds, Series 1994, was issued to finance the construction of a Materials Recovery Facility. The bonds bear interest at 5.10% to 5.75% and are due March 1, 2018. Principal payments are due annually on March 1 and interest payments are due semi-annually on March 1 and September 1. The bonds are subject to early redemption at the discretion of the City upon payment of a redemption price equal to the outstanding principal and accrued interest, plus a premium of .25%. The bonds will be repaid from lease revenues received by the City for the materials recovery facility.

As of June 30, 2016, annual debt service requirements to maturity and carrying value of the Lease Revenue Bonds were as follows:

For the Year Ending June 30	Principal	Interest	Total
2017	\$ 370,000	\$ 44,275	\$ 414,275
2018	400,000	23,000	423,000
Total	<u>\$ 770,000</u>	<u>\$ 67,275</u>	<u>\$ 837,275</u>